# No Blow Up Is Big Enough to Tarnish Platinum Partners' Returns

by **Zeke Faux**
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- Hedge fund has gained an average of 17% annually for 13 years
- Investments include payday lenders, Singaporean penny stocks

Platinum Partners has had a terrible year in every way but one.

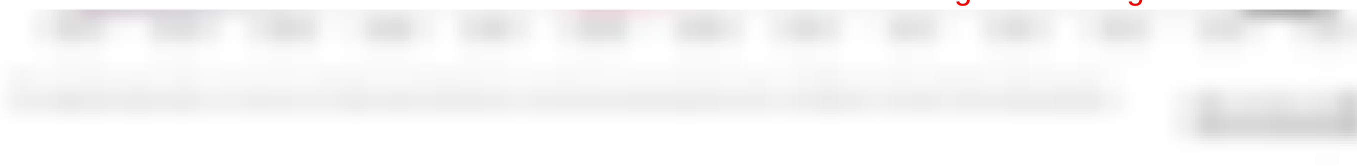
In January, regulators sanctioned <https://www.sec.gov/alj/aljdec/2015/id733bpm.pdf> an outside broker doing business with the hedge fund for running what they called a "scheme to profit from the imminent deaths of terminally ill patients." In August, prosecutors in Louisiana filed criminal charges against an oil company that had been Platinum's biggest investment in connection with an explosion <http://www.bloomberg.com/news/articles/2012-11-21/u-s-cites-safety-lapses-after-black-elk-gulf-of-mexico-fire-2-> that killed three workers. And last month the former head of an energy company in which the $1.4 billion fund had a significant stake was arrested for tax evasion.

Mark Nordlicht Source: Platinum Partners

The good news: Platinum says it's making money, just as it has in each of the past 13 years. Since it was founded in 2003, its main fund has gained an average of about 17 percent annually, according to an investor presentation. That's on a par with the world's best-performing hedge funds, such as Bill Ackman's Pershing Square Capital Management and Israel Englander's Millennium Management.

Platinum's specialty is investing in companies that others avoid, such as payday lenders or high-flying Singaporean penny stocks. The firm has never been sanctioned by regulators and even thrived while investing hundreds of millions of dollars in what turned out to be two Ponzi schemes. Mark Nordlicht, the former commodities trader who founded Platinum, says his main concerns are limiting risk and making money.

"We'll scour the four corners of the earth for the best risk-adjusted strategy," Nordlicht said in an interview. "If things don't work out exactly as forecast, our investors still end up with principal, a robust interest rate or potentially an asset at an attractive price."



Platinum says the offshore version of its main fund has cumulatively returned about 667 percent since January 2003.

The main fund, Platinum Partners Value Arbitrage, has returned about 8 percent this year, according to the investor presentation. Nordlicht said that the fund has made good bets in biotechnology and on a planned chain of mini-marts in rural China. Another winner has been a startup electricity retailer called Agera Energy <https://www.ageraenergy.com/about-agera-energy/> , he said.

The investment connected with terminally ill patients shows the lengths Platinum will go to find a can't-miss bet. Insurance companies were offering variable annuities -- a type of guaranteed investment contract -- with bonuses that only applied when the investor died. A broker approached Platinum in 2007 with an idea, according to the U.S. Securities and Exchange Commission: Find people who were near death and buy contracts with their names using the fund's money. With the bonuses, the fund could earn 5 percent, risk-free, as soon as each person died.

Platinum set up a company called BDL Group to invest in the annuities, eventually putting up more than $56 million <http://www.sec.gov/litigation/admin/2014/34-71713.pdf> , and Nordlicht brought in a friend to oversee the process, the SEC said in an administrative order. A rabbi in Los Angeles found the hospice patients and tricked <http://www.sec.gov/litigation/admin/2014/34-71712.pdf> them into providing their personal information so that BDL could take out annuities with their names, according to the SEC.

Nordlicht's friend, the rabbi and BDL agreed last year to pay about $4 million in settlements with the SEC, without admitting doing anything wrong. Neither Platinum nor Nordlicht were accused of wrongdoing.

"We definitely were exploiting a loophole, but it was fully vetted by legal counsel," Nordlicht said. "A principal-protected piece of paper backed by an A credit with an expected annualized return of 30 percent proved too difficult to resist for a risk-adjusted return hawk."

## 'Red Flags'

Nathan Anderson, founder of hedge-fund researcher ClaritySpring Inc. <http://www.clarityspring.com/> , was asked last year by potential investors to look into Platinum. He said that while returns were about the steadiest he'd seen, the rest of what he found raised questions.

"When you see nearly flawless returns, it's intriguing, but also potentially worrying," Anderson said. "Even cursory due diligence showed that a number of their dealings ended in death, litigation or handcuffs. Those are the kinds of red flags you can see from outer space."

Nordlicht said the research couldn't have been thorough, because he doesn't remember Anderson contacting Platinum.

The oil company that's now facing criminal charges, Houston-based Black Elk Energy, was Platinum's biggest investment as of March 2014, worth as much as $186 million, according to a Platinum valuation report. Black Elk is now in bankruptcy, two months after prosecutors in Louisiana accused it of negligence in the explosion, which occurred on an oil platform in the Gulf of Mexico. In a lawsuit brought by an injured worker, the company blamed outside contractors and said it wasn't responsible. Matt Chester, a lawyer for Black Elk, declined to comment.

The valuation report, dated March 2014, shows that illiquid, hard-to-value assets make up much of Platinum's portfolio. The second-biggest holding is a group of oil fields in California. The valuation agent, Murray Grenville, didn't respond to requests for comment. The fund's auditor,

CohnReznick LLP, a New York-based accounting firm with 2,500 employees, declined to comment.

## Cotton Options

Nordlicht, 47, rarely attends the investing events or charity balls where other hedge-fund titans mingle. He works out of a midtown Manhattan office and recently started splitting his time between New York and Israel. He and his relatives have about $250 million invested in Platinum, according to calculations based on disclosures the fund provides investors. He wouldn't confirm the amount.

Nordlicht started his career as a trader on the noisy floors of New York's commodity exchanges, where his father also worked. Another trader from the cotton-options pit remembers him biding his time until big swings hit the market, then betting big and usually winning.

He opened the hedge fund in 2003 with $25 million from his earnings, and from family and friends, according to an investor presentation. The initial investors included a pair of penny-stock dealmakers named Murray Huberfeld and David Bodner, according to three people with knowledge of the matter.

Bodner and Huberfeld pleaded guilty to misdemeanors in 1992 for sending others to take their brokerage-licensing tests and were ordered to pay $4.7 million by the SEC in 1998 for illegally selling restricted stock. They also made a lot of money on Internet-related stocks in the 1990s, according to Irwin Gross, a lawyer who worked with them and later invested in Platinum.

## Payday Lending

Huberfeld opened a credit-focused fund in the same building where Platinum had its office, and it was absorbed by Nordlicht's firm in 2011. That $500 million fund has reported gains in 118 of the 119 months since it was founded and an average annualized return of 13.5 percent, according to another investor presentation. Huberfeld didn't return calls, and Nordlicht declined to comment on their relationship. Bodner also declined to comment.

While Platinum took off, another Nordlicht venture was collapsing. He co-founded a commodities brokerage called Optionable, and in 2007 its biggest customer, a trader at Bank of Montreal, was revealed to have hidden about C$680 million ($524 million) in losses from his employer. In 2012, Optionable's chief executive officer was sentenced to 30 months in prison in New York for helping the trader conceal the losing bets. Nordlicht, the company's chairman, wasn't implicated in the scheme.

One strategy the credit fund has used is financing payday lenders, many of which have been engaged in a decade-long cat-and-mouse game with regulators trying to enforce state interest-rate limits. Payday lenders are willing to pay hedge funds 15 percent a year or more to borrow money they use to make the costly loans, according to people who work in the industry.

CashCall Inc. <https://www.bloomberg.com/quote/4969945Z:US> is one of the lenders that borrowed from Platinum, California records show. The Consumer Financial Protection Bureau is suing CashCall, saying it collected on loans that violated state interest-rate caps. CashCall has argued that federal agencies can't enforce state rate limits and in any event the rules don't apply because the loans were made by an American Indian-owned company. The case is pending.

"There's going to be arguments on both sides as to whether some of the loans we finance are beneficial or harmful to society," Nordlicht said. "But to us, what's incontrovertible is that when you take on the responsibility for managing other peoples' money, you have a duty to go all out to protect capital and produce returns."